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FEATURED Q&A

How Much Will the Trade War Crimp Global Shipping?



The U.S.-China trade war is expected to lead to a decline in traffic through the Panama Canal (pictured above). // File Photo: Panamanian Government.

Q A record 442 million tons of cargo was shipped through the Panama Canal during the fiscal year that ended Sept. 30, the waterway's administration said Oct. 11. However, canal administrator Jorge Quijano said officials are bracing for a \$50 million decline in revenue in the coming year because of the U.S.-China trade war. How significant of a decline in shipping is the Panama Canal facing, and how much will the Central American country's economy suffer as a result? Which other locations in Latin America could see a major fall in port activity due to the trade war? Which stakeholders in Latin America and the Caribbean would be most affected by a decline in maritime traffic and shipping?

A Mario Bruendel, CEO of XportForwarding.com: "As the trade war between the United States and China has intensified, it is reasonable to wonder what this will mean for the world at large. If we assume that ocean freight volumes could be a canary in the coal mine for the trade war's impact on the global economy, then perhaps we can gain insight into this larger question. Over the last year, freight rates from China to the United States have gone up as a result of the trade war. This is equally true for shipments that flow directly to the U.S. West Coast or traverse to the Gulf of Mexico and East Coast via the Panama Canal. Comparatively, container costs where China is the destination have actually gone down. This is largely driven by China's decision to no longer consume U.S. recycled goods. Yet despite these changes in container pricing, container volumes from China to the United States appear either to have remained the same or increased. With a

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TODAY'S NEWS

POLITICAL

Eight Colombian Soldiers Arrested in Civilian's Death

The soldiers were arrested in connection with the murder of a civilian earlier this year. The soldiers stand accused of killing the farmer and wounding a second individual.

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ECONOMIC

Mexicans to Vote on Airport's Construction

In a national vote beginning today, Mexicans will decide whether to continue the construction of a new airport for Mexico City.

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POLITICAL

U.S. on Path of Confrontation With Cuba: Rodríguez

Cuba's foreign minister decried the increasing tensions between Washington and Havana and also said the United States is pressuring countries to reject Cuba's annual U.N. resolution calling for an end to its embargo.

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Rodríguez // File Photo: Cuban Government.

POLITICAL NEWS

U.S. on Path of Confrontation: Cuba's Rodríguez

The United States is on a path of "confrontation" with Cuba and is pressuring countries to reject Cuba's annual United Nations resolution, planned for next week, calling for an end to the U.S. embargo of the island, Cuban Foreign Minister Bruno Rodríguez told reporters Wednesday, *El Nuevo Día* reported. Since Donald Trump became U.S. president last year, relations between the two countries have deteriorated



We regret the U.S. government is advancing on a course of confrontation with Cuba."

— Bruno Rodríguez

with tighter U.S. travel and trade restrictions. The straining of relations followed former President Barack Obama's moves to thaw diplomatic relations including the opening of embassies in Washington and Havana. During the hour-and-a-half news conference in Havana, Rodríguez decried the Trump administration's tougher stance. "We regret the U.S. government is advancing on a course of confrontation with Cuba," he said, *Reuters* reported. Last week, a White House official said the administration was planning to increase economic pressure on Cuba's intelligence agency and military, as well as on Venezuela's government, the wire service reported. In his remarks Wednesday to reporters, Rodríguez also said the United States is trying to win support for its embargo at the United Nations during the General Assembly next week at which Cuba's government is expected to again call for the embargo's end. Rodríguez said the United States seeks to justify the embargo because of human rights

concerns, while it "violates the human rights of the Cuban people." At the United Nations last week, U.S. Ambassador Kelley E. Currie attempted to introduce a campaign to highlight Cuba's jailing of dissidents, but Cuba's delegation and its supporters responded by shouting and pounding on their desks, the *Miami Herald* reported. This week, U.S. Secretary of State Mike Pompeo called the Cuban delegation's reaction a "childish temper tantrum." On Wednesday, Pompeo told reporters that he had written a letter to U.N. Secretary General António Guterres "requesting to know what measures the U.N. will take to respond to these actions and make sure that they do not happen again." [Editor's note: See [Q&A](#) on Cuban President Miguel Díaz-Canel's recent trip to the United States in the Oct. 12 issue of the *Advisor*.]

Eight Colombian Soldiers Arrested in Civilian's Murder

Colombian authorities have arrested eight soldiers in connection to the murder of a civilian earlier this year, *El Tiempo* reported Wednesday. The soldiers are accused of killing a farmer and wounding a second individual in the northeastern Arauca Department in March, in an incident that was "unrelated to confrontation," prosecutors said, without identifying what prompted the attack, *Agence France-Presse* reported. The detained men will be charged with "aggravated homicide and attempted aggravated homicide," the prosecutor's office said. For years, Colombia's army has been accused of killing civilians in remote areas of the country and pretending the victims are guerrillas killed in combat, incidents known as "false positives." In its annual report, Human Rights Watch said "the military often abducted victims ... and killed them, placed weapons on their bodies and reported them as enemy combatants killed in action," adding that roughly 3,600 such murders had been investigated by Colombia's prosecutor's office from 2002 to 2008. Dissidents of the former Revolutionary Armed Forces of Colombia, or FARC, guerrillas, the National Liberation Army,

NEWS BRIEFS

Mexicans to Vote on Whether to Continue Airport's Construction

Beginning today and over the next three days, Mexicans will decide whether to continue the construction of Mexico City's new airport, which is already about one-third complete, or update the existing airport in the capital and convert a military base nearby into a commercial hub, the *Associated Press* reported. President-elect Andrés Manuel López Obrador had previously said he would cancel the \$13 billion project, but later vowed to let the public decide through a national vote. [Editor's note: See related [Q&A](#) in the Oct. 19 issue of the *Advisor*.]

Barrick Gold Posts Net Loss Including Peru Mine Impairment Charge

Canada-based Barrick Gold has posted a net loss for the third quarter of \$412 million, or 35 cents a share, a figure that includes a \$405 million impairment charge related to the Lagunas Norte mine in Peru, *Creamer Media's Mining Weekly* reported today. The net loss compares to an \$11 million loss in the third quarter of last year. The company's adjusted net earnings also declined, to \$89 million.

StoneCo Reportedly Prices IPO at \$24 Per Share

Brazilian credit card processor StoneCo priced its initial public offering at \$24 per share, above the initial suggested range of \$21-\$23, and increased the total amount of shares offered, *Reuters* reported today. Stone shareholders had expected to raise as much as \$1.1 billion, but after major investors such as Jack Ma's Ant Financial and Warren Buffet's Berkshire Hathaway expressed interest, they estimate raising \$1.5 billion, a source told the wire service. Stone shares began trading today.

or ELN, rebels and drug trafficking gangs are battling over control of drug routes along the Colombia-Venezuela border near Arauca, AFP reported. Colombian President Iván Duque in



Duque // File Photo: Colombian Government.

August put on hold peace talks with the ELN as the country deals with a record level of coca plant crops, from which cocaine is produced, the U.N. Office on Drugs and Crime said last month. [Editor's note: See related Q&A in the [Oct. 4](#) and [Oct. 17](#) issues of the daily Advisor.]

BUSINESS NEWS

Odebrecht Attempted to Settle With Mexico for \$18 Mn: Report

Brazilian construction conglomerate Odebrecht this year offered to pay Mexico \$18 million in order to resolve corruption cases linked to the firm, but the Mexican government rejected the offer, Reuters reported Wednesday, citing unnamed sources familiar with the matter. Odebrecht has been involved in one of the world's largest graft schemes, paying billions of dollars in bribes across Latin America in exchange for securing public works contracts, El Heraldo de México reported. As part of a plea deal with U.S., Swiss and Brazilian prosecutors, Odebrecht admitted to paying bribe money to officials in 12 countries, including Mexico, which has not brought criminal charges against the company. However, the government began fining Odebrecht for suspected corruption and barred it from participating in tenders in December. The Brazilian company reportedly offered to pay \$18 million and to cooperate on

FEATURED Q&A / Continued from page 1

steady increase in the strength of the U.S. economy and consumption, it could be reasonably predicted that U.S. purchasing will not abate. This tends to lend credibility to the idea that the trade war may not significantly harm the global economy. What about goods that are shipped from China and pass through another nation for assembly before entering the United States? There is no real way to easily trace items that flow into the United States in this manner. In fact, the trade war might actually help countries to position themselves as a key part of the global supply chain. For example, countries like those in Central America could become a hub for companies to re-export semi-finished goods into the United States at more favorable rates. In addition, imports to the United States from places other than China should receive a boost from the trade war, as suddenly products made outside of China (be it South East Asia, South America, Central America or elsewhere) should be cheaper for the United States to import than they were prior to the trade war."

A Rogelio Douglas, president of the Caribbean Sustainable Development Group in Limón, Costa Rica: "The Panama Canal Authority published record results for the 2018 fiscal year, with a 9.5 percent increase in cargo tonnage over the previous year while cautioning the market on probable negative revenue effects from the U.S.-China trade war, suggesting that gross revenue this year might not be as impressive as the 15 percent growth between the 2016 and 2017 fiscal years. Undoubtedly, the trade war will

graft cases that are under investigation in Mexico, in exchange for the Mexican government lifting a sanction blocking it from participating in public tenders and agreeing not to prosecute Odebrecht in the future. The Mexican government reportedly rejected the deal. It is unclear when the Brazilian conglomerate made the offer and when Mexico denied it, but the Mexican

have some effect on the canal-dependent flow and indirectly on neighboring Central American ports. However, a small revenue effect should be of least concern. While each Central American country enjoys its own set of economic particulars, one com-

“ Short-term challenges seem to consume so many governments of the region...”

— Rogelio Douglas

mon factor seems to be their governments' inability to convert sustainable economic success into broadly inclusive national benefits of growth, prosperity and social stability. Panama has enjoyed an impressive annual economic growth of more than 5 percent on average for more than a decade, yet a third of its population remains in poverty. Also, in 2017, Panama had a national unemployment level of above 6 percent, like neighboring Costa Rica where economic success consistently fails to translate into economic equity and inclusiveness. Short-term challenges seem to consume so many governments of the region, preventing the development and execution of long-term strategies to address structural issues. Emerging markets should focus more on large-scale global tendencies and changes that could help them create new market opportunities for a broader sector of their population."

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attorney general's office received news of the offer in August, according to two unnamed government sources, Reuters reported. Last week, a spokesman for Mexico's attorney general's office told the wire service that the office had not reached a deal with the Brazilian construction conglomerate, but he would not comment further on the matter.

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A Welber Barral, senior consultant at Barral M Jorge Consultores Asociados and former Brazilian foreign trade secretary: “The reduction in Panama Canal traffic affects many sectors and services in the region. Additionally, the ongoing trade war affects predictability and consequently raises costs related to risk in the operation, such as

“**Nobody wins in a trade war, but smaller countries dependent on trade are more heavily affected.**”

— Welber Barral

insurances and demurrages. Nobody wins in a trade war, but smaller countries dependent on trade are more heavily affected. Elsewhere in Latin America, ports that provide services for sectors involved in global value chains could see a decline in activity. Hence, ports that export parts and raw materials for Chinese industry will be directly affected. Sanctions and increased tariffs create instability for well-established production chains. Purchasers are forced to look for new providers and to compare costs in order to

reduce the final price for declining markets. This phenomenon puts pressure on the cost of logistics, including ports, warehouses and transportation companies.”

A Robert R. McMillan, retired attorney and former chairman of the Panama Canal Commission: “First, I must take a look at the growth of liquid natural gas (LNG) ships transiting the canal. The United States has the world’s largest reserve of LNG. The growth of such shipments has been very significant since the opening of the canal’s expansion, and it will continue to grow. This will make up, to some extent, for the lack of shipments due to the trade war between the United States and China. There is also a strong possibility that the trade war will be negotiated in a way that is favorable to China and the United States. Take a look at the domestic politics in the United States. U.S. exports of soybeans to China are one of the largest volumes through the canal. Of the 10 states with the highest volume of soybeans, Trump carried eight of them with significant popular vote margins in the presidential election. Those states will exert pressure to make sure that a trade deal is worked out between China and the United States. In the final analysis, it will come down to domestic politics in the United States.”

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

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An Inter-American Dialogue Discussion with
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